



North Devon Council

Report Date: Monday, 5 February 2024

Topic: 10 Year Capital Strategy 2024 to 2034

Report by: Adam Tape, Head of Governance

1 Introduction

The Capital Strategy is a high level review of the corporate priorities, capital investment ambition, available resources, affordability and risk management in the context of ensuring the long term financial sustainability of this authority.

2 Recommendations

The Committee is asked to recommend to full Council that:

- 2.1 The Capital Strategy 2024/25 to 2033/34 be approved.

3 Reasons for Recommendations

- 3.1 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146) requires the Council to have regard to the Treasury Management Code.
- 3.1 To meet the requirements of the Prudential Code 2021, ensuring the Committee has assurance on the long term financial standing of the Council and risks associated with the capital strategy
- 3.2 To ensure that future capital investments are affordable and targeted to the Council's priorities.

4 Capital Strategy

4.1 Background

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.



This capital strategy document covers the ten year period from 2024/25 to 2033/34 and will be reviewed annually by Full Council prior to each financial year.

4.2. Corporate Priorities

The Corporate Plan sets out our medium-term ambitions covering the four main areas as below:

- 1. Achieving financial security**
- 2. Become focused on delivering the best for our citizens**
- 3. Our environment is cherished and protected**
- 4. We plan for North Devon's future**

For further information please see the Council's full Corporate Plan.

Following the May 2023 district elections, the new Administration are currently reviewing their new corporate objectives.

The actions in the Corporate Plan will be delivered through the associated Programmes, coordinated by the Programme Management Office (PMO). Progress against these actions will be measured through quarterly performance reports to Councillors.

4.3 Capital Governance

The Council has a well-established capital project appraisal process. All capital projects require a business case, reviewing options, risks and associated costs, whilst formally recording internal consultation, including Legal Services, Finance, HR, ICT, Procurement and the Senior Management Team.

The Project Appraisal Group (PAG) then meet to score the proposed project. The scoring will assess each proposal against a series of objective criteria including:

- legal or statutory obligation and risk of death or maiming
- alignment with the corporate priorities
- maintenance of a council asset
- material improvement in the service
- number of people it would benefit
- proportion of external funding or revenue savings

The project scoring determines which projects move forward and get considered by the Strategy and Resources Committee who will then make a recommendation to Full Council to vary the capital programme accordingly.

As part of the Committee reporting process the funding or resource implications will be clearly identified. For example funding from external grants, capital receipts, S106 income, reserves or borrowing. Any additional costs arising from

borrowing on approved capital projects will then be built into the budget setting process and Medium Term Financial Strategy (MTFS).

In additional to the original approval of the project, a separate approval will also be sought from the Strategy and Resources committee and then Full Council to release the capital funds three to six months before the project is due to start.

All Capital spend will be undertaken in accordance with our Contract Procedure rules, which provides the following thresholds:

Contract value (including VAT)	Procurement requirement
Below £12,000	No procurement required, although a written quote will be obtained and able to demonstrate best value.
£12,000 to £119,999	A minimum of three alternative quotes are sought
£120,000 and above	A competitive tendering process is undertaken

The Council has a project management framework based on the PRINCE2 methodology and therefore incorporates industry best practice. The framework consists of four phases; pre-project feasibility, initiation planning, delivery & implementation, and closure & review.

Project Management is all about successfully planning, implementing and managing change. Following the NDC framework allows the Project Manager to apply control throughout the project and manage the variables of time, cost and quality in order to deliver the expected business benefits.

The Council is committed to post project evaluation and sharing lessons learnt to improve future project management

4.4 Capital Strategy Years 2024/25 to 2027/28 (Medium Terms)

This section looks to summarise and bring together the key points of the Council's approved medium term financial strategy, capital programme and the overall treasury position, over the medium term, in order to set the context for Members, prior to looking at the longer term capital strategy.

<u>CAPITAL</u> £'000	2023-24	2024-25	2025-26	2026-27	2027-28
Net Capital Financing Gap (expenditure less receipts)	2,871	8,851	2,675	0	0
Total Capital Financing Requirement (Borrowing need)	27,581	37,859	39,069	38,283	36,956
Long Term Liabilities (Finance leases)	2,922	5,171	4,672	4,903	4,593
External Borrowing	3,000	18,000	23,000	23,500	23,500
Total Year End Resources (Reserves & working capital)	23,150	16,350	12,700	11,200	10,200
Annual cost of Long Term Liabilities (MRP & Interest)	416	824	1,076	1,123	1,212
Annual Cost of External Borrowing (MRP & Interest)	802	1,244	1,610	1,721	1,865

<u>REVENUE</u> £'000	2023-24	2024-25	2025-26	2026-27	2027-28
Medium Term Financial Strategy Budget Gap	(73)	0	562	3,020	3,409

Revenue

The Council is required to operate a balanced revenue budget, however for 2025/26 current projections show a medium term financial strategy budget gap of £0.6m increasing to £3.4m by 2027/28.

The Government's Fair Funding Review has again been delayed until 2026/27 at the earliest. The financial settlement for 2024/25 year is only a one-year funding announcement which leaves local authorities with much greater uncertainty in being able to plan further ahead.

The medium term financial forecast prudently assumes the worse-case scenario of losing circa £1.7m of core funding/business rates growth as part of the Governments funding review for 2026/27.

Whatever the outcome of the funding review the Council will have to become more entrepreneurial in how it delivers services to generate extra income and reduce costs, this will require a review and refresh of our commercialisation strategy. The Council will also have to review a number of options for bridging the



budget gap and any such financial benefits these may produce; these would be subject to further reports being presented to Members. *Please see the Medium Term Financial Strategy for further details.*

Capital

Any capital expenditure that is not immediately paid for through a revenue or capital resource leads to a capital financing need or gap, which will increase the Council's total Capital Financing Requirement (CFR). The CFR is a measure of the Council's underlying need to borrow to finance the total historic outstanding capital programme. The estimated CFR for March 2024 is circa £27.6m which increases to its peak in March 2026 at £39m. This substantial borrowing need reflects the capital programme over recent years and into the medium term, including the new Leisure Centre, the purchase of Green Lanes Shopping Centre and the Future High Streets project. A full list of the currently approved capital projects can be found in Appendix E of the Budget Report 2024/25.

The CFR will in part be funded by external borrowing. Total external borrowing as at March 2024 is projected to remain at £3m, increasing by a £20.5m over the next three years to peak at £23.5m in March 2027. The medium term strategy is prudently maintaining an under-borrowed position, meaning that as a temporary measure the Council is using its own cash supporting reserves, balances and cash-flows rather than fully funding the CFR with external borrowing. This position will need to be reviewed in line with investment returns and counterparty risks. The current projections show internal borrowing remaining at circa £10m or above over this medium term period.

Where a capital project increases the CFR or financing gap then a minimum revenue provision (MRP) must be made to reduce the borrowing amount over the life of the asset. The MRP and the interest payable on the borrowing (annual cost of external borrowing) are charged to the revenue account each year and this will therefore impact on the Council's revenue budget and on-going medium term financial plan budget gap. The projected annual borrowing cost for 2024/25 is circa £1.2m increasing to £1.9m by 2027/28. These projections take into account the current increased cost to borrow due to the higher interest rates at present. *For further details on the Capital Financing Requirement and Minimum Revenue Provision please refer to the Annual Treasury Management Strategy 2024/25.*

The Council receives an annual management fee in relation to the running of the new Leisure Centre to help offset an element of the borrowing costs above. There is also additional income from Green Lanes Shopping Centre and the potential for income generation from the Future High Street redevelopments which have been factored into the budget and medium term financial strategy accordingly.

In October 2021, the Council entered into a vehicle leasing programme for our fleet renewals. Whilst these finance leases increase the CFR and therefore our borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these

vehicles. The balance of this borrowing is shown as long term liabilities in the table above as is projected to be £4.9m in March 2027, with a revenue cost of £1.1m (MRP and interest) in that financial year.

The tables above show the Council is facing both revenue and capital resource pressures within the medium term forecast and that Members will be faced with challenging decisions to make as part of setting future budgets and delivering capital schemes which are not fully funded.

4.5 Capital Strategy Years 2028/29 to 2033/34 (long Term)

Capital Expenditure

The main area of capital expenditure within the long term forecast which is necessary to maintain business as normal, is our vehicle replacement programme, as the works and recycling fleet have specific asset life cycles. The projected costs are shown below:

<u>CAPITAL EXPENDITURE</u>	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
£'000						
Vehicle Lease Cost	986	75	1,455	741	785	785

As mentioned in section 4.4, the vehicle fleet are now leased and that scheme includes the borrowing element from the lease provider. Whilst we do not require PWLB external borrowing for these vehicles, the impact is shown on our long term liabilities below.

The forecast also builds in a level of disabled facilities grant for each year, but we have anticipated that this will continue to be fully funded by external grants as at present.

The Council's Property Team are currently in the process of refreshing our Asset Management Plan, which includes carrying out condition surveys of our land and property portfolio. The result of this work will help to formulate a ten-year asset maintenance plan which will then feed into future capital strategy reports. Currently, the Council has a £0.290m revenue repairs fund for planned and response maintenance. This capital strategy assumes that this repairs fund will continue and be allocated to capital works if appropriate.

Similarly, the Council has a fund of £0.115m per annum to cover ICT costs and replacements.

Capital Funding and Affordability

The following table is based on the capital information identified in the previous section:

CAPITAL £'000	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Total Capital Financing Requirement (Borrowing need)	36,031	34,183	33,713	32,488	31,302	30,116
Projected Long Term Liabilities (Finance leases)	4,671	3,814	4,335	4,100	3,905	3,710
Projected External Borrowing	23,500	23,500	22,500	21,500	20,500	19,500
Total Year End Resources (Reserves & working capital)	9,200	8,200	8,200	8,200	8,200	8,200
Annual Cost of Long Term Liabilities (MRP & Interest)	1,282	1,237	1,281	1,304	1,292	1,277
Annual Cost of External Borrowing (MRP & Interest)	1,766	1,827	1,707	1,667	1,696	1,656

REVENUE £'000	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
Medium Term Financial Strategy Budget Gap	3,147	3,366	*3,290	*3,272	*3,290	*3,234

**For this purpose it assumes no other revenue changes apart from the cost of borrowing for capital*

The capital table above shows that the CFR is generally on a downward trend from £36m in 2028/29 to £30m by 2033/34, although Members should note that this assumes a breakeven capital programme, with no additional borrowing requirement over the long term period. External borrowing over the longer term remains at a high level, reducing from £23.5m to £19.5m over the same period,

again assuming the under-borrowed position, of circa £7m, remains prudent and sustainable.

As a result of the high projected borrowing, the annual borrowing cost will continue to put pressure on the Council’s revenue budget each year. The projected cost of borrowing, both external borrowing and long term liabilities, is set to remain circa £3m per annum over the 6 year forecast period.

In the revenue table above, the forecast medium term financial strategy budget gap has been extended beyond 2029/30, just to reflect the impact of borrowing costs before any other revenue changes are considered. On this basis, the revenue budget gap for the long term remains above £3m, with limited impact from the cost of borrowing due to breakeven capital programme over this period.

The strategy shows that the business as normal capital schemes such as our vehicles may present affordability challenges that Members will need to take into account as further capital schemes come forward for investment.

The graph below illustrates the current ten year capital strategy:



4.6 Capital Investment Ambition

The Council has had an ambitious capital programme over the last couple financial years, with the development of a new Leisure Centre and the purchase of Green Lanes Shopping Centre and the commitment to the Future High Street Project which is currently ongoing.



Whilst this ambition is likely to continue, particularly around our corporate themes such as housing and regeneration initiatives, Members do need to be aware of the medium and long term capital and revenue position, as detailed in this strategy, and the affordability of any future capital plans.

Future capital projects would have to have no or limited impact on the revenue budget gap. Any additional borrowing costs would have to be offset by additional income such as a management fee, rental income or additional capital receipts would need to be identified.

4.7 Non-Treasury Investments

The Council will not borrow primarily for financial return and furthermore recent changes to the PWLB lending terms mean that they will no longer lend to local authorities that have plans to buy commercial assets primarily for yield within their capital programme. Given the level the external borrowing required over the ten year period and that PWLB would currently be the best option for the Council to borrow these funds, no commercial investments will be made.

The Council will consider service investments that relate to a specific council objectives approved directly through a committee, such as schemes in relation to economic regeneration. Service investment items are covered by the capital programme and associated risk framework.

4.8 Commercialisation

The long term outlook for the Council's financial standing strongly supports the need for the Council to become more efficient and commercially minded across all areas of the organisation to generate additional income for the revenue budget.

The Commercialisation Strategy sets out the parameters and options for income generation and net revenue gains. This strategy is due for renewal in April 2024.

4.9 Environmental, Social & Governance (ESG) Investments

The Council will maintain a cautious approach to ESG investments and will work with our external Treasury Advisors to help understand and evaluate the risk involved.

The Council will consider approved Counterparties that provide an ESG alternative i.e. sustainable deposits, which help to support sustainable and environmentally friendly services and products, whilst delivering Security, Liquidity and Yield requirements. This approach complies with the current Secretary of State Investment Guidance and ensures no greater risk is taken to achieve ESG/Sustainable investment objectives. Our Treasury Management Practices (TMP1) will also be regularly updated to address ESG risk management in respect of our treasury management activities.



4.10 Risk Management

The Councils Corporate Risk Register (CRR) includes 'Failure to make decisions for a robust budget and Medium Term Financial Plan' which directly relates to financial sustainability of the Council. The CRR also has a risk 'Failure to prioritise and build sufficient capacity to deliver' which is relevant when considering the ambitions of the capital programme and our ability to deliver with the current financial and staff resources available. The Corporate Risk Group (CORGI) review the CRR each quarter and provide an updated position to Governance Committee.

On a quarterly basis we also provide the financial and performance reports to Strategy and Resources Committee, Policy and Development Committee and Full Council. This is in addition to the three Treasury Management report these committee receive annually.

Risk Appetite

The Council will be risk aware and not risk adverse as we look to reduce our reliance on the Governments core funding grant, taking opportunities to increase our income whilst prudently maintaining financial security. Further details on the Council's risk appetite can be found in the Risk Management Framework.

Risks with the Capital Strategy

The risks with any long term strategy is the unknown or unexpected events which will require large scale capital investments; as we have seen in the past such as storm repairs to Ilfracombe Harbour. Whilst the treasury management strategy has sufficient headroom within its borrowing limits to deal with such situations, the impact of the borrowing cost on the revenue budget are much harder to protect against.

There could also be service or legislation changes which the Council will have to adapt to in order to maintain efficient and effective service provision.

Whilst our long term budget projections have factored inflation into the estimates, economic and trading conditions can impact on future prices.

The Budget Report 2024/25 provides further details on potential risks facing the Council.

5 Resource Implications

5.1 As detailed in the report.

6 Equalities Assessment

- 6.1 There are not any equalities implications anticipated as a result of this report, as the purpose of this report is to present the Council's financial position only.

7 Environmental Assessment

- 7.1 There are not any environmental implications anticipated as a result of this report, as the purpose of this report is to present the Council's financial position only. Environmental, Social & Governance (ESG) Investments are covered in section 4.9

8 Corporate Priorities

- 8.1 The 10 year capital programme sets the financial long term context for delivering the corporate priorities and approving capital projects against those priorities.

9 Constitutional context

- Part 4 Financial Procedure Rules (Article 13.8) / Article 4.4
Delegated power

10 Statement of Confidentiality

- 10.1 This report contains no confidential or exempt information under the provisions of Schedule 12A of 1972 Act.

11 Statement of Internal Advice

- 11.1 The author (below) confirms that advice has been taken from all appropriate Councillors and Officers.

Adam Tape, Head of Governance
Jon Triggs, Director of Resources and Deputy Chief Executive